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## **Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)**

### **Cover Note**

#### **Objective**

- 1 The objective of this session is to discuss and agree to recommend to the EFRAG Board, a draft endorsement advice and invitation to comment (the 'Amendments').

#### *Preliminary comments*

- 2 The Amendments introduce changes to both IAS 1 *Presentation of Financial Statements* and to the IFRS Practice Statement 2 *Making Materiality Judgement*.
- 3 Although EFRAG addressed changes to both documents in its 2019 comment letter (available [here](#)) in response to the IASB's exposure draft, EFRAG's endorsement advice will only address the changes to IAS 1 as the Practice Statement is a non-mandatory guidance that has not been endorsed for application in the European Union. To that effect, a mention has been added to the cover letter to clarify the scope of the draft endorsement advice.

#### **Background**

- 4 In July 2018, the IASB added a project to its agenda to develop guidance and examples to help entities apply materiality judgements to accounting policy disclosure. The IASB added this project in response to feedback on the *Disclosure Initiative—Principles of Disclosure Discussion Paper* in 2017.
- 5 The feedback suggested that guidance is required to assist entities in determining which accounting policies to disclose. It was noted that the application of materiality is key to deciding which accounting policies to disclose, however IAS 1 *Presentation of Financial Statements* did not refer to materiality but states that '[a]n entity shall disclose its significant accounting policies' without providing a definition for the term 'significant'.
- 6 The IASB published the exposure draft *Disclosure of Accounting Policies (Proposed Amendments to IAS 1 and IFRS Practice Statement 2)* (the 'ED') in August 2019.
- 7 EFRAG issued its comment letter in response to the exposure draft on 12 December 2019. In its letter, EFRAG:
  - (a) supported the proposal to replace the undefined reference to 'significance' with the defined concept of 'materiality'.
  - (b) Suggested that in some cases, information reproducing the requirements in IFRS Standards may be helpful, particularly the case when some accounting

requirements in IFRS Standard may be particularly complex as not all primary users of financial statements are accounting experts<sup>1</sup>.

- (c) Invited the IASB to further clarify the guidance and examples in the practice Statements.
- 8 Other respondents to the Exposure Draft have, like EFRAG, assessed that in some situations, such as when the requirements of an IFRS Standard are particularly complex, useful accounting policy information can also include information that contains standardised descriptions or duplicates the requirements of IFRS Standards. These respondents considered in these circumstances such information is so fundamental to users' understanding of the financial statements that it would be material. They thought there was a risk that the proposals, as drafted, could lead to entities omitting material information from the financial statements.

### Amendments issued

- 9 The IASB issued the Amendments on 12 February 2021 which are effective from 1 January 2023, but entities can decide to apply them earlier.
- 10 The European Commission issued a letter requesting advice on the endorsement of the Amendments on 17 February 2021 (uploaded as paper 13-04). The letter does not identify specific additional issues to investigate.
- 11 A link to the IASB publication, on EFRAG's website, is provided under permission of the IASB and is only valid until the publication of the Amendments/Standard in the official journal. ([here](#)).

### How the IASB has addressed EFRAG's concerns and other respondents?

- 12 To address this concern, paragraph 117B(e) has been added to describe a circumstance in which an entity is likely to consider accounting policy information that is a standardised description or that duplicates the requirements of IFRS Standards to be material.
- 13 117B(e) states in particular that: *'the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transaction, other events or conditions – such a situation could arise if an entity applies more than one IFRS to a class of material transactions'*.
- 14 However, the inclusion of the additional paragraph has caused one of the IASB member to dissent (see below).
- 15 The Amendments were approved for issue by 10 of 13 members of the IASB Board. Ms Françoise Flores dissented while two other members abstained in view of their recent appointment to the IASB Board.
- 16 Ms Françoise Flores voted against the publication of the Amendments as she disagreed with the inclusion of paragraph 117B(e) of IAS 1, as described above. Ms Flores agreed with the rest of amendments to IAS 1.
- 17 Ms Flores believed that the notion of 'complexity' is highly subjective and therefore does not contribute to a solid basis for a requirement. Introducing such a subjective assessment could, in her view undermine the overall aim of the Amendments, which is to contribute to a better application of the concept of materiality to accounting policy

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(a) <sup>1</sup> This suggestion was made by the EFRAG Board.

disclosures and thereby help an entity reduce the disclosure of immaterial accounting policy information.

- 18 In her view, paragraph 117B(e) is an unsatisfactory response to feedback from users who said that entity-specific accounting policy information is more useful than information that is standardised and duplicates or summarises the requirements of IFRS Standards.
- 19 Lastly, Ms Flores noted that the Conceptual Framework of Financial Reporting stated that users of financial statements are expected to have a reasonable knowledge of business and economic activities, but may need to seek the aid of an adviser to cope with perceived complexity.

#### **Draft endorsement advice**

- 20 The proposed draft Endorsement Advice submitted to EFRAG TEG review suggests the following conclusions
  - (a) EFRAG considers that the Amendments will bring improved financial reporting when compared to previous guidance. As such, their endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.
  - (b) EFRAG has not identified that the Amendments could have any adverse effect to the European economy, including financial stability and economic growth.
  - (c) Furthermore, EFRAG has not identified any other factors that would mean endorsement of the Amendments is not conducive to the European public good.
  - (d) Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, EFRAG assesses that endorsing the Amendments is conducive to the European public good.

#### **Questions for EFRAG TEG**

- 21 Do EFRAG TEG members have comments on the information contained in paragraphs 4 to 20, above?
- 22 Does EFRAG TEG agree to recommend the draft endorsement advice (contained in paper 13-02) and the invitation to comment (contained in paper 13-03) for consideration by the EFRAG Board?
- 23 Do EFRAG TEG members agree with a consultation period of Three months for the Draft Endorsement Advice?

#### **Agenda Papers**

- 24 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 13-02 – EFRAG’s draft letter to the European Commission regarding endorsement of *Disclosing of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)*;
  - (b) Agenda paper 13-03 – Invitation to comment on EFRAG’s Assessment; and
  - (c) Agenda paper 13-04 – Letter from the European Commission requesting endorsement advice– for background only.